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World Financial Markets

Morgan Guaranty Trust Company of New York

March/April 1985

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Chart 1

The dollar and the U.S. trade balance

* April 3

** January-February.

The Bonn summit and the U.S. trade deficit

The U.S. trade deficit — $123 billion last year and seemingly headed higher (see Chart 1) — is one of many profound imbalances that have afflicted the world economy over the past decade. Following the second oil shock, and in surprisingly short order, global retrenchment quelled double-digit inflation in the major industrial countries, eradicated an OPEC surplus that had exceeded $100 billion in 1980, and forced abrupt financial adjustment on overextended developing countries. Against that background, the Reagan Administration's economic recovery program and fiscal stimulus led to ebullient domestic expansion, sending the dollar and the U.S. trade deficit soaring — the more so as domestic growth still lagged in Europe and elsewhere (see Chart 2).

The trade deficit has had a number of positive features. It has lessened domestic capacity constraints on continued economic expansion. It has acted as a powerful restraint on U.S. wage and price inflation. And it has kept U.S. interest rates lower than they otherwise would have been, given credit demands in both private and public sectors. It also has provided a vital boost for the rest of the world, which has come to depend on export sales to the United States. However, a large and growing U.S. trade deficit is neither desirable nor tenable indefinitely. Long-term problems would emerge: financially, as the United States becomes the foremost international debtor; economically, as U.S. domestic demand leaks abroad and employment gains falter; and politically, as threatened domestic industries and their workers clamor for protection.

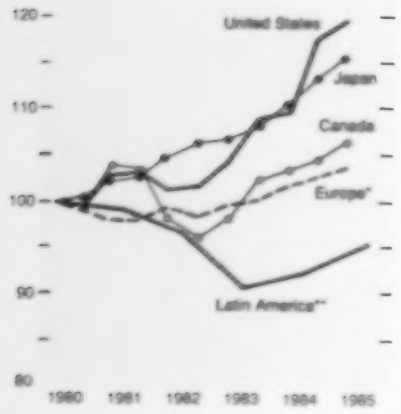
Accordingly, policy changes are needed. Most recommendations stress *unilateral* U.S. measures. Protectionism, whatever its popular appeal, would be of questionable efficacy for narrowing the overall trade deficit. Other unilateral approaches would work by driving down the dollar or by depressing U.S. domestic demand. But the depreciation route would require a major further fall in the dollar, would be very damaging in terms of inflation and, most likely, would lead to a new recession. Recession would be still more the danger were domestic demand to be deliberately depressed. Any resulting fall in interest rates might not spur foreign economic activity and U.S. exports by enough to outweigh the domestic contraction.

What is needed is a *multilateral* approach recognizing that the U.S. trade deficit reflects foreign eco-

Chart 2

Domestic demand

Real terms, 1980 1st half = 100



* Germany, France, United Kingdom, Italy.

** Argentina, Brazil, Mexico.

nomic failings as well as the U.S. budget imbalance. Gradual but cumulatively major policy changes in each of the summit countries should have two principal goals: stepped-up economic growth that puts idle resources back to work worldwide; and the breakdown of trade and regulatory barriers that stifle efficiency. If the summit leaders keep these goals to the fore at their May meeting in Bonn, they can point the way forward to constructive solution of the U.S. trade problem.

The problem

The widening trade deficit raises question marks for U.S. economic competitiveness and performance. The dimensions and sources of the deterioration are a function of developments in the world at large, as well as in the United States. Scenario A in Table 1 sets out the key features of a probable path for the deficit on the assumptions that the dollar holds around its present level for the next few years and that macroeconomic policies are unchanged both in the United States and elsewhere. The U.S. trade deficit would creep steadily upward, from this year's projected $155 billion on the CIF valuation to perhaps $180 billion in 1989. The current account deficit would widen much further, from $145 billion this year to about $250 billion in 1989, largely because interest payments on the U.S. net foreign debt would reach $90 billion by the end of the four-year period.

This prospect poses three major problems. First, there is a *financial* problem — the potential threat to market stability and national independence of action set by U.S. transition from international creditor position — held since World War I — to growing net debtor status today. If Scenario A comes to pass, then on a net basis the United States could speedily amass a trillion dollar debt mountain, towering substantially higher than today's entire third world debt of roughly $730 billion net, or $900 billion gross. Attracting the corresponding net capital inflows could have worldwide interest and exchange rate implications, whether or not the debt mountain itself proves destabilizing.

Second, an *economic* problem arises from the leakage abroad of U.S. domestic demand through the trade deficit. Many see that leakage subtracting from U.S. output and employment. The leakage may, in principle, exceed the increase in domestic demand, such that U.S. producers collectively get no benefit. That was nearly the case in 1984's third quarter when over two-thirds of the rise in domestic demand leaked abroad (see Chart 3). For the year as a whole, two percentage points of the 8.7% rise in domestic demand were met through increased net imports. Leakage may now be worsening. Robust retail sales contrast with sagging industrial output and faltering overall employment gains. Moreover, while imports dipped in February, exports declined sharply, widening the trade deficit to $11.4 billion — $2 billion greater than the average of the preceding four months. This mixed overall picture underlay the flash estimate of just 2.1% real GNP growth for the first quarter of 1985 and the leveling out of the jobless rate in the 7%-7½% range since last summer.

Third, U.S. *protectionism* is stirred by the trade deficit. The sight of foreigners deriving handsome benefits from U.S. expansion is galling to domestic industries suffering competitive handicaps. Trade balances have deteriorated drastically in almost every category of the manufacturing sector — not only in industries that have been in long-standing structural difficulty but also in many

Table 1

Medium-term scenarios for the U.S. trade and current accounts

percent change, except as noted

	1984	1985	1986	1987	1988	1989
Scenario A: unchanged dollar, unchanged policies						
U.S. trade balance CIF ($bil)	—123	—155	—165	—163	—167	—180
Current account ($bil)	—101	—149	—165	—193	—216	—250
Net foreign debt ($bil)	30	—119	—285	—477	—693	—943
U.S. real GNP	6.9	3.6	3.3	2.9	3.2	3.1
Domestic demand	8.7	4.0	3.2	2.9	3.0	3.0
Unemployment rate (%)	7.4	7.0	6.8	6.8	6.7	6.6
Manufactures prices	1.5	2.2	1.7	2.4	2.6	2.7
*Interest rate (%)**	10.0	10.6	9.5	10.6	10.2	10.1
*Dollar exchange rate***	8.0	8.0	0.0	0.0	0.0	0.0
*Foreign real GNP****	3.5	3.3	3.5	3.5	3.0	3.0
Scenario B: dollar devaluation						
U.S. trade balance CIF ($bil)	—123	—146	—125	—74	—32	7
Current account ($bil)	—101	—133	—129	—100	—62	—26
Net foreign debt ($bil)	0	—103	—231	—332	—393	—419
U.S. real GNP	6.9	3.8	3.3	3.4	3.7	3.6
Domestic demand	8.7	3.9	2.7	2.3	2.6	2.6
Unemployment rate (%)	7.4	6.8	6.6	6.3	5.8	5.4
Manufactures prices	1.5	2.8	4.1	6.6	7.2	7.3
*Interest rate (%)**	10.0	11.1	11.0	12.0	10.5	10.1
*Dollar exchange rate***	8.0	4.0	—12.0	—12.0	—10.0	—10.0
*Foreign real GNP****	3.5	3.3	3.5	3.5	3.0	3.0
Scenario C: U.S. recession						
U.S. trade balance CIF ($bil)	—123	—148	—132	—96	—63	—34
Current account ($bil)	—101	—138	—116	—91	—55	—27
Net foreign debt ($bil)	30	—108	—225	—315	—370	—397
U.S. real GNP	6.9	1.8	—2.0	—2.1	—1.2	—0.2
Domestic demand	8.7	2.2	—2.3	—2.4	—1.8	—0.7
Unemployment rate (%)	7.4	8.2	11.7	15.3	18.2	20.5
Manufactures prices	1.5	1.9	0.4	0.3	—0.2	—0.6
*Interest rate (%)**	10.0	9.3	6.8	6.9	5.6	5.7
*Dollar exchange rate***	8.0	8.0	0.0	0.0	0.0	0.0
*Foreign real GNP****	3.5	3.3	3.5	3.5	3.0	3.0
Scenario D: U.S. import surcharge						
U.S. trade balance CIF ($bil)	—123	—156	—70	—49	—46	—62
Current account ($bil)	—101	—142	—70	—50	—48	—67
Net foreign debt ($bil)	30	—112	—182	—233	—281	—349
U.S. real GNP	6.9	3.7	1.7	2.8	3.2	3.1
Domestic demand	8.7	4.0	0.1	2.0	2.7	3.0
Unemployment rate (%)	7.4	6.9	7.8	7.9	7.8	7.7
Manufactures prices	1.5	2.3	8.2	7.3	5.6	3.2
*Interest rate (%)**	10.0	10.6	14.7	9.3	8.7	8.1
*Dollar exchange rate***	8.0	8.0	0.0	0.0	0.0	0.0
*Foreign real GNP****	3.5	3.3	2.5	2.0	2.0	2.5
Scenario E: an international strategy						
U.S. trade balance CIF ($bil)	—123	—146	—123	—81	—41	—24
Current account ($bil)	—101	—133	—119	—91	—50	—25
Net foreign debt ($bil)	30	—103	—222	—313	—362	—390
U.S. real GNP	6.9	3.8	3.0	3.0	3.3	3.1
Domestic demand	8.7	3.9	2.4	2.1	2.3	2.6
Unemployment rate (%)	7.4	6.8	6.8	6.8	6.6	6.5
Manufactures prices	1.5	2.8	3.4	4.9	5.1	4.3
*Interest rate (%)**	10.0	11.1	9.5	9.2	8.1	7.4
*Dollar exchange rate***	8.0	4.0	—7.0	—6.0	—5.0	0.0
*Foreign real GNP****	3.5	3.3	4.5	5.0	5.0	4.5

*Six-month Treasury bill rates.
**Nominal effective.
***Industrial countries except United States.

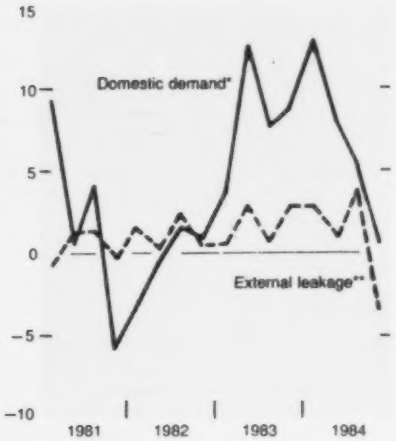
that are said to represent the high-tech future (see Table 2). Deterioration is most conspicuous in the capital goods field, where domestic producers are seen to be losing out in the new industrial revolution. Even for firms that face no trade deficit problem, a high dollar adversely affects foreign affiliates' earnings.

The competitive realities of the 1980s are making unrelenting adjustment demands of U.S. industry, with no sign that pressures will ease in the year ahead. The dollar's tremendous rise is much decried, but is not the only factor at work. For one thing, U.S. retailers are increasingly adept at seeking out low-cost foreign supply sources in order to sell quality imports in the domestic market. For another, U.S. manufacturing companies have little competitive choice but to exploit to the utmost the very large savings in labor costs obtainable by transferring abroad routine stages of mass manufacture. Newly industrializing countries (NICs) in Asia are especially attractive, coupling labor force discipline with increasing capabilities in production technology. Moreover, in their own drive for exports, the NICs are compelled by Japanese and European trade restrictions to target their sales to the vast and easily accessible U.S. market (see Table 3). The dollar's strength probably makes little difference when quantum differences in labor cost are achievable. However, it must be disheartening to those U.S. firms whose main foreign competition is from Japan or Europe, where costs and technology are somewhat more comparable with U.S. conditions.

Protectionist feeling against imports would be more readily held at bay were U.S. export prospects brighter. These are depressed both by the failure of foreign markets to grow sufficiently and by losses of market shares. Over and above the currency factor, U.S. firms face com-

Chart 3

U.S. demand leakage



* Percent change from previous quarter, s.a.a.r.

** Change in net imports as percent of GNP, real terms.

Table 2

U.S. trade by product

billions of dollars, CIF valuations

	Trade balance		U.S. imports,
	1984	change since 1980	% change, 1980-84
Total	—123.3	—91.1	35
Food and raw materials	13.4	—10.9	13
Oil	—53.5	20.5	—24
Manufactures	—88.7	—101.2	76
Chemicals	11.3	—2.3	61
Semimanufactures	—33.2	—22.3	44
Iron and steel	—10.5	—5.5	45
Textiles	—2.2	—3.4	84
Autos, parts, and engines	—29.5	—18.5	83
Civilian aircraft and parts	5.8	—5.3	31
Electronics	—11.0	—14.0	162
Business and data processing	5.9	—1.7	266
Telecommunications	—3.9	—3.6	142
Consumer	—8.2	—5.2	128
Components	—4.8	—3.5	124
Other capital goods	4.4	—19.0	73
Miscellaneous	—36.5	—19.8	81
Clothing	—13.7	—7.9	109
Footwear	—5.3	—2.4	80
Re-exports and other	—5.5	0.5	

Source: U.S. Department of Commerce, Office of Trade and Investment Analysis.

petitive inequities due to their restricted access to foreign markets. Grievances further extend to foreign government production subsidies, dumping, industry targeting, and cartel agreements. Concluding that true "free" trade is a myth, many U.S. industries are now demanding drastic remedies.

Capital flows dominate

Not so long ago it was widely held that the U.S. trade deficit would prove self-correcting: the deficit itself would bring the dollar down to a level eventually conducive to a reasonable balance. That plainly has not happened, since trade forces have been swamped by developments on capital account, inspired in part by the global trend toward liberalization and integration of capital markets. Thus the U.S. financing requirement has not proven unsustainable. Indeed, a widening deficit may be financially sustainable for some time to come.

Almost half last year's increased current account financing was met by a $28 billion decline in net new foreign lending and investing by U.S. residents (see Table 4). Both banks and nonbanks contributed to the reduction, especially U.S. banks. In part, this reflected the cutback of U.S. bank involvement in the international interbank market in response to credit troubles and capital-adequacy pressures to trim balance sheets. Banks in the United States have also been redeploying assets to meet credit demands at home. The required net capital inflow into the United States during 1984 was secured with no overall increases in interest differentials favoring the dollar (see Chart 4).

This year U.S. residents again may choose to draw down foreign assets. Alternatively, portfolio shifts may cause foreign capital inflows to swell. For example, a major counterpart of the U.S. current account deficit is the projected $45 billion Japanese surplus. Already enjoying a large net foreign asset position, equivalent to about $70 billion at end-1984, Japan is liberalizing its external and domestic financial controls with active U.S. encouragement. Liberalization permits financial portfolio diversification by Japanese institutions and residents who added $57 billion in long-term foreign assets last year. Artificially low interest rates and financial repression in Japan's domestic markets help explain both the low proportion of financial assets relative to real estate in Japanese residents' overall portfolios and the high share of foreign assets in financial holdings. In relation to their overall portfolios, Japanese residents still are light in foreign holdings, compared with U.S. residents (see Table 5). While some of Japan's foreign assets are in the form of direct investment, most are held in bonds and bank credits, or as foreign exchange reserves. The bulk of Japanese foreign asset purchases is thought to be dollar-denominated, but they are not necessarily claims on the United States. Nonetheless, Japan is well placed to be a prime source of U.S. capital inflows. Not all of Japan's financial institutions have yet diversified substantially. Moreover, although many insurance companies and pension funds may now be near their presently permitted ceilings for foreign security holdings, those ceilings could well be lifted.

Besides Japan, most European countries are in current account surplus. So also, to a striking extent, are China and Taiwan among developing countries (see Table 6). All are in a position to furnish net capital flows to the United States. It should be remembered too that the large "global discrepancy" on current account — whereby reported deficits exceed surpluses for the

Table 3

Bilateral orientation of U.S. trade

billions of dollars, CIF valuations

	US. bilateral trade balance		U.S. imports, % change, 1980-84
	1984	change since 1980	
Total	—123.3	—86.9	33
Industrial countries	—72.9	—72 8	59
Canada	—20.6	—14.0	60
Japan	—37.0	—25.0	84
Western Europe	—17.1	—35.7	53
Australia	1.1	0.0	3
OPEC	—13.7	23.2	—49
Latin America*	—13.4	—19.3	43
Argentina	—0.1	—1.9	22
Brazil	—5.6	—5.9	107
Mexico	—6.3	—8.6	42
China	—1.2	—3 8	192
Hong Kong	—5.8	—3.5	77
Korea	—4.0	—4.3	126
Malaysia	—1.0	0.4	5
Philippines	—0.9	—1.0	37
Singapore	—0.4	—1.5	108
Taiwan	—11.1	—8.1	118
Thailand	—0.4	—0.8	65

*Excludes Ecuador and Venezuela.

Table 4

U.S. balance of payments

billions of dollars
minus sign indicates an outflow

	1983	1984
Current account balance	—41.6	—101.6
Changes in U.S. holdings of foreign assets	—49.5	—21.2
Official holdings	—6.2	—8.6
Private holdings	—43.3	—12.6
Direct investment	—4.9	—6.0
Claims of U.S. banks	—25.4	—7.3
Changes in foreign holdings of U.S. assets	81.7	92.8
Official holdings	5.3	3.0
Liabilities of U.S. banks	0.4	0.7
Private holdings	76.4	89.8
Direct investment	11.3	21.2
U.S. Treasury securities	8.7	22.5
Other U.S. securities	8.6	13.0
Liabilities of U.S. banks	49.1	27.6
Statistical discrepancy	9.3	30.0

world as a whole — implies not only that the official measure of the U.S. deficit is probably overstated but also that investable surpluses elsewhere are larger than appear. Finally, capital flight from Latin America and elsewhere has not halted.

Should a trillion-dollar net U.S. foreign debt mountain rise up by the end of the decade, it would represent better than twice U.S. goods and services exports but less than 20% of U.S. GNP. The latter ratio is hardly large, compared with other international debtors. The ratio to exports also would be short of those associated with Latin America's debt troubles. However, the U.S. debt mountain would seem to imply an increase in U.S. country risk concentration in foreign portfolios.* On the assumptions of Scenario A, including no rundown in U.S. foreign assets, foreign claims on the United States would rise from 12% of foreign GNP at present to 21% by 1989. That higher figure might conceivably represent saturation of foreign portfolios with U.S. risk. However, it is below the corresponding ratio of gross U.S. holdings of foreign assets to U.S. GNP, recently 23%.

The distinction between *country* risk and *currency* risk is a further complication. Increases in U.S. dollar liabilities that finance the U.S. current account deficit substitute in some degree for dollar liabilities that other countries are no longer issuing by virtue of their current account surpluses. To that extent, the U.S. deficit occasions no net increase in dollar-denominated paper. Moreover, worldwide disinflation is shifting portfolio preferences away from such inflation hedges as precious metals and land toward financial assets, boosting demand for dollar assets. Besides, an ongoing phenomenon — dubbed "dollarization" — wherein global transactions and obligations are increasingly contracted in dollars, raises dollar portfolio demands independently of U.S. current account deficits.

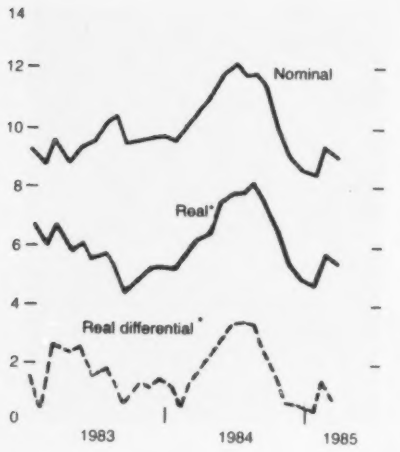
Even if those deficits were to rise, they would remain small compared with the abrupt portfolio adjustments that holders might seek in the event of shifts in their perceptions of risk and return, especially exchange rate expectations. Such shifts could be triggered by all manner of surprise developments in the political, economic, and institutional arenas, but usually not by current account "fundamentals" that are devoid of surprise. This does not mean the dollar cannot fall sharply, for the possibility of a downshift in market expectations cannot be ruled out. But neither can a fresh surge in the dollar be precluded, as again demonstrated earlier this year.

Scenario A implies that the U.S. absorption of foreign savings, about 8% of gross free-world savings outside the United States in 1984, would reach 15% four years hence. Even though that may be manageable, it would be a sad failure of leadership that leaves the United States as the one great outlet for world savings. Much of the world outside the United States now is saving more than it invests at home, the excess being channeled to the United States whose domestic savings fall short of the perceived opportunities for productive and profitable domestic investment. While human and capital resources in Europe, Latin America, and other LDCs stand idle, U.S. investment opportunities are a net plus for all concerned. The long-term objective, however, must be to narrow the U.S. savings-investment gap constructively, build up productive investment opportunities elsewhere, and thus

*The relevant measurement of total portfolio size is elusive. In addition to financial assets, which pose an issue of netting, there are the equity and real estate holdings of the nonfinancial sector for which no reliable valuation is available. However, assuming that total wealth has a stable relationship to GNP, the time path of country risk concentration parallels foreign asset/GNP ratios.

Chart 4

U.S. interest rates: nominal and real
percent



* Inflation-adjusted 3-month Eurodollar deposit rate; differential subtracts GNP-weighted average of rates for seven other major Eurocurrencies. The inflation adjustment uses centered 12-month rates of change in consumer prices including projections for 1985 where necessary.

Table 5

Japan's portfolio diversification
billions of dollars, except as noted

	1980	1982	1984*
Current account surplus	—10.7	6.9	35.0
Gross long-term capital outflows	10.8	27.4	56.9
Direct investment	2.4	4.5	6.0
Bonds	4.1	9.5	30.7
Bank loans and trade credits	3.3	11.1	16.9
External assets			
Net	11.5	24.7	70.0
Gross	159.7	227.7	330.0
as percent of			
GNP	13.7	20.2	28.3
Household financial assets	9.6	12.8	14.0
Household total assets	3.2	4.4	5.5
Memo:			
U.S. gross external assets as percent of	606.9	838.1	860.0
GNP	23.1	27.3	23.5
Household financial assets	9.4	11.1	9.9
Household total assets	5.8	6.9	6.2

*Estimated.

promote a better balance in the free flow of international capital.

Deep devaluation or recession: dangerous remedies

Correction of the U.S. trade imbalance is most often believed to require a unilateral overhaul of U.S. fiscal policy, monetary policy, or both. Though not widely recommended, sufficient monetary easing, whether directly or by intervention in the currency markets that is not offset by domestic monetary contraction, could induce a deep devaluation of the dollar. That would help narrow the deficit. Retaining Scenario A assumptions for growth in U.S. and foreign domestic demand, and with U.S. interest rates assumed steady, Scenario B in Table 1 indicates that the dollar would have to slide at least 12% per annum from its present level — cumulatively by almost 50% — to achieve a trade surplus by 1989 and trim the current account deficit to modest dimensions.

The advantage in cutting the deficit by devaluation could be a one-percentage point average step-up in U.S. real GNP growth, accruing from reversal of the present leakage of domestic demand into imports. That would make possible substantial reduction of U.S. unemployment. Unhappily, a radically lower dollar would blunt competitive pressures for productivity improvement in U.S. industry and would be very troublesome for U.S. inflation. While the near-40% real effective appreciation of the dollar between 1980 and late 1984 led to only a 7% decline in U.S. import prices for consumer and capital goods, relative to domestic output, reversal of the appreciation would boost not only the *relative* price of imports but also the general domestic price level. Moreover, it is far from clear that only a one-time 2% or so price level adjustment would occur for every 10% depreciation of the dollar, as a common rule of thumb implies. Most pernicious could be the interaction of depreciation with inflation expectations and the wage-price spiral; witness the crucial moderating role of dollar strength in the wage negotiations and pricing behavior of sectors of the U.S. economy that are exposed to foreign competition. Were the dollar to tumble, such discipline could be quickly lost. That would cause U.S. inflation to accelerate steadily, heading above 7% per annum three years hence, compared with less than 3% on unchanged-dollar assumptions.

The classic alternative to devaluation for a country in deep current account deficit is fiscal austerity. Scenario C in Table 1 portrays an austerity program, to be initiated in the second half of this year, that would cause U.S. domestic demand to shrink by roughly 2% per annum through 1988. No fall in the dollar is assumed. Such an outcome might be attainable by aggressive cutting of the budget deficit through increased taxation hitting private consumption and investment, with falling interest rates that stop well short of offsetting the fiscal contraction. The program would largely eliminate the current account deficit by 1989, but at daunting economic cost: the offset to depressed domestic demand from strengthening net exports would be far from complete. With U.S. real GNP declining three years in a row, unemployment could rocket above 15%, reaching the worst now prevailing in Europe.

The adverse employment effects of fiscal austerity would be muted if accompanied by significant monetary easing, in other words through a major shift in the U.S. policy mix. If all went well, this might avert a drastic fall in the dollar or any severe run-up in U.S. inflation and

Table 6

World current account balances

billions of dollars

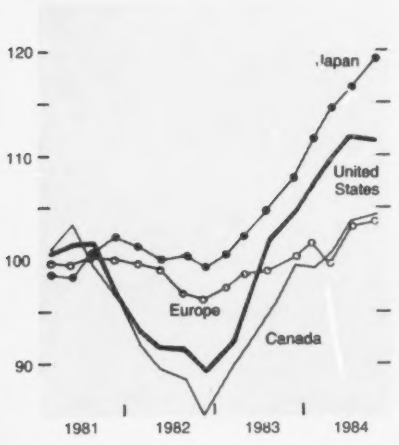
	1980	1984	1985*
Industrial countries	—63.0	—60.0	—82.0
United States	1.9	—100.0	—135.0
Canada	—1.0	1.7	1.0
Japan	—10.7	35.0	45.0
Western Europe	—53.0	12.0	16.0
Germany	—15.8	6.3	7.0
France	—4.2	—0.1	0.5
United Kingdom	8.1	0.3	2.0
Italy	—9.8	—2.9	—3.0
Netherlands	—2.6	5.5	5.5
Switzerland	—1.6	3.2	3.5
OPEC	103.0	—10.0	—13.0
Non-OPEC LDCs	—63.0	—30.0	—20.0
Argentina	—4.8	—2.3	—2.0
Brazil	—12.8	—0.4	—3.0
Mexico	—7.2	4.0	1.5
China	—3.3	4.2	3.0
Korea	—5.3	—1.4	—1.0
Taiwan	—0.9	7.4	9.0
*Global discrepancy***	23.0	100.0	115.0

*Projected.
**Includes Eastern Europe and Soviet Union.

Chart 5

Manufacturing output

indices 1981 = 100



unemployment. But this policy-mix solution would place primary weight on curbing U.S. domestic demand to trim the trade deficit, entailing a cutback in U.S. living standards or investment. Moreover, wiping out the trade deficit by contracting U.S. imports would be a setback for growth and employment abroad — a major reason why foreign countries, impressed by the role of exports in their own economic growth, are so nervous about a continued sharp fall in the dollar or a U.S. recession. Although either event might encourage a decline in foreign interest rates that would somewhat stimulate their domestic demand, it is hard to believe that foreign countries would escape the traditional chill of a U.S. recession. More likely, they too would lapse into a new recession. That would cut into U.S. trade gains and inspire yet further U.S. austerity if current account adjustment were to remain the overriding goal. Thus the world could lurch into what has been termed "self-righteous depression."

Protection by surcharge

Amid simultaneous deficits in the U.S. current account and budget, an import surcharge enjoys some support as a way to deal with both problems at once. One such proposal would impose a temporary three-year surcharge on all U.S. imports, scaled down from 25% in the first year, to 12% in the second, and to 7% in the third. In the first year, for example, existing 10% tariffs would be jacked up to 35%. Scenario D in Table 1 assumes that foreigners would not retaliate against the U.S. levy but rather would stimulate their domestic economies so that reduced exports to the United States would not weaken their overall activity. Assuming that the dollar held at its present level, and that the surcharge would be passed through fully in higher U.S. import prices, the trade deficit might be cut by over two-thirds while the surcharge remained in effect. However, the improvement would be quickly reversed once the surcharge expired. Moreover, it might not materialize at all if the dollar were to appreciate, as theory suggests might well occur.

Thus, a temporary surcharge alone would not correct the trade deficit in the long run. Nor would it be a cure-all for U.S. job problems. A surcharge would depress the economy because it would constitute a tax increase. Jobs might be saved in the trade sector, but growth and employment elsewhere in the economy would be handicapped. Any trade benefit would be bought at the price of higher U.S. inflation, which could exceed 8% for a time and drive interest rates up. Another defect of a general import surcharge is that it would protect not only troubled industries, but also the less deserving. U.S. manufacturing output as a whole, though stagnant since last summer, currently is up by 13% since 1980 and by 24% since the recession (see Chart 5).

Of course, some U.S. industries have failed to share the overall expansion, even with the aid of trade restrictions. Yet Table 7 reveals that industries comprising only 15% of 1980 manufacturing employment have experienced significant output declines so far in the 1980s. The list suggests that shifting demand has outweighed deteriorating international competitiveness in the misfortunes of some. A somewhat longer list of U.S. industries has recorded declining employment during the 1980s: indeed, total manufacturing employment, though up 9% since the recession, edged lower this February and remains 6.6% below its 1979 peak. Although foreign competition may sometimes have been the dominant factor in job

Table 7

Output declines amid U.S. manufacturing recovery

industries whose output has fallen more than 1% per annum since 1980 or end-1982; parentheses after industry names show Standard Industrial Classification codes

	Annual average % output growth		Share of total U.S. manufacturing employment
	1980-1984Q4	1982Q4-1984Q4	1980
Cotton fabrics (221+4)	—4.9	—1.2	0.9
Fabric finishing (226)	—4.8	0.6	0.4
Carpeting (227)	—4.8	—4.0	0.3
Basic chemicals (281)	—1.0	8.8	0.8
Paints (285)	—6.0	—4.1	0.3
Agricultural chemicals (287)	—1.2	8.3	0.4
Petroleum products (29)	—1.8	0.9	1.0
Leather products (31)	—4.9	—1.2	1.2
Pressed and blown glass (322)	—1.2	2.5	0.6
Structural metal products (344)	—2.3	9.2	2.5
Engines and farm equipment (351+2)	—5.8	8.3	1.5
Construction and allied products (353)	—3.3	17.5	1.9
Major electrical equipment (361+2)	—1.7	11.7	1.8
Railroad equipment (374)	—27.5	14.6	0.4
Consumer instruments (385+7)	—1.6	4.4	0.3
Miscellaneous business supplies (395+9)	—2.4	3.6	0.9
Total			15.0
Memo: All U.S. manufacturing	3.0	11.4	100.0

losses, they also have been occasioned by changing technology and labor-saving investment. Besides, the employment record of U.S. manufacturing is much better than that in other mature industrial countries: for example, Germany's manufacturing jobs have dwindled more than 10% since 1980, despite the competitive benefit of the mark's 8% real effective depreciation. Nor is it the case that U.S. manufacturing is undergoing a generalized crisis of profitability. Adjusted for inventory valuation changes, its profits in 1984 were 56% above the recession low of 1982. Its inflation-adjusted after-tax rate of return on capital was substantially higher than at the turn of the decade — thanks in part to the 1981 business tax cuts.

Most troubling about the import surcharge proposal is its disregard of the risks of trade war. No matter that the surcharge were enacted to correct a recognized trade imbalance, it would be naive to suppose that foreign governments would find the political will to resist their own protectionist interest groups. Foreign retaliation could well inspire a fresh round of protectionist measures by the United States. Moreover, besides stirring enmity, a deliberate turn to protectionism in the older industrial nations would break faith with LDCs seeking export-oriented development with the encouragement of western governments.

Targeted surcharges

The objections to an import surcharge apply with persuasive force to a levy on all, or most, U.S. imports. A surcharge might instead be confined to specific products. For example, petroleum imports are mentioned for surcharge or special duty treatment, both on grounds of high revenue potential and in support of long-term conservation. An oil import tax is sometimes represented as an almost painless tax increase, given the slide since 1981 in real oil prices to U.S. consumers. However, it could be seriously destabilizing to already troubled oil markets. And, as an approach to the budget problem, it shares the defect of all tax increases in that it fails to tackle basic spending issues.

Alternatively, a surcharge might be targeted on imports from countries deemed to engage in widespread and persistently unfair trade practices. In this context, the spotlight is on Japan. Much of Japan's $37 billion trade surplus with the United States is concentrated in sensitive sectors, such as autos, electronics, and capital goods (see Table 8). Japan's propensity to pile up surpluses with almost all its major trading partners, excepting some oil and raw material suppliers (see Table 9), is a long-standing well of acrimony and frustration in international trade relations. Some complaints against Japanese trade policies are simply the predictable litany of foreign competitors vulnerable to Japan's dynamism and technological strengths. Merited or not, however, the political response of Japan's trade partners is vitally affected by perceptions of Japan's own lack of openness to imports and its restrictions on technology transfers. Even where otherwise competitive, many would-be exporters to Japan are frustrated by Japan's resistant cultural attitudes, entrenched domestic interests, traditions of administrative controls, and assorted tariff and nontariff barriers to imports. Japan's tariff structure militates against successful market penetration by nontraditional exports of its Asian trading partners, such as Indonesian plywood and boneless chicken from Thailand. Those nations have other access grievances concerning technology transfers. Nor has Europe resolved its access problems.

Table 8

U.S.-Japan trade by product

billions of dollars, CIF valuations

	U.S. bilateral trade balance		*U.S. imports, % change, 1980-84*
	1984	*change since 1980*	
Total	—37.2	—24.9	83
Food and raw materials	9.0	— 0.7	59
Oil	0.7	0.5	50
Manufactures	—47.8	—24.4	84
Chemicals	1.7	0.4	100
Semimanufactures	—6.5	—1.8	27
Iron and steel	—3.5	—0.2	6
Textiles	—0.7	—0.4	75
Autos, parts, and engines	—17.7	—6.3	54
Civilian aircraft and parts	1.0	0.1	24
Electronics	—14.5	—10.8	246
Business and data processing	—3.8	—3.6	430
Telecommunications	—3.3	—2.2	192
Consumer	—5.6	—3.5	167
Components	—1.8	—1.5	340
Other capital goods	—8.6	—6.3	153
Miscellaneous	—3.2	0.3	83
Clothing	—0.5	—0.3	150
Re-exports and other	0.9	—0.3	

Source: U.S. Department of Commerce, Office of Trade and Investment Analysis.

U.S. negotiators are currently targeting Japanese import barriers in four areas: telecommunications and satellites; computers and electronics; pharmaceuticals and medical equipment; forest products, pulp, and paper. This last area, in which the United States (and Indonesia) have superior resource endowments, involves tariff walls protecting large numbers of Japanese mills. Their political power inhibits restructuring without compensation.

The other areas all involve nontariff barriers. These have been fundamental to Japan's strategy for nurturing the commercial success and technological dynamism of what it sees as industries of the future. Seen from abroad, that strategy has depended heavily on "infant industry" protection, often maintained until such time as Japanese firms have secured enough competitive edge to dominate both home and global markets; belated removal of protection has then left minimal opportunities for remaining foreign competitors in the Japanese internal market. Japan now seems to be targeting the same high-technology industries in which the United States finds most promise, industries in which the U.S. trade record is quite liberal with respect to foreign participation, at least when national security considerations are secondary. With reciprocity arguments hardly below the surface, the United States is urging a correspondingly liberal regime upon Japan, taking exception, for example, to Japan's apparent intention to debar foreign ownership interest in NTT, its telecommunications utility — on national security grounds that the British did not find compelling.

Nothing less than a powerful shock — on the order of the Nixon and oil shocks of the 1970s — is likely to jolt Japan into radical reordering of its trade strategy. Its number-two rank among free-world economies now demands that Japan shed a self-image that allows imports of raw materials, but of the fewest foreign manufactures possible. That self-image is deep-rooted in Japan's bureaucracy and society at large. In this light, the just-announced last minute "concessions" on telecommunication, while welcome in themselves, are primarily of symbolic value. They mark no more than a first step toward correcting Japan's huge trade surpluses, globally and vis-à-vis the United States. Heavy and continuing pressure will be needed to change Japanese values and practices in a fundamental way in order to achieve real progress on the trade front. New instruments of pressure may have to be employed. A targeted surcharge on U.S. imports from Japan, for example, would speak volumes. Insofar as it would avoid the binding distortions and irrational incidence of costs and benefits that arise under quotas or "voluntary" restraints, it would be the least protectionist of evils. Moreover, it would not be imposed with protectionist intent. Rather, a substantial targeted surcharge, with standby authority for a still higher levy, could play a highly constructive bargaining role in opening up Japan's sheltered markets and in making a reality of the two-way trade on which a liberal world trade order must ultimately rest.

An international strategy: a better approach

The foregoing analysis argues that correction of the U.S. external imbalance by unilateral U.S. policy changes alone would threaten the strength of the U.S. economy without assured benefit to the rest of the world. Much better results could be obtained through an international approach involving wide-ranging policy reforms, recognizing that

Table 9

Bilateral orientation of Japan's trade

billions of dollars, CIF valuations

	Japan's bilateral trade balance		*Japan's imports, % change, 1980-84*
	1984	*change since 1980*	
Total	33.7	10.7	—3
Industrial countries	37.9	—12.1	15
United States	33.1*	—7.0	10
Canada	—0.6	2.3	5
Western Europe	10.9	—11.1	25
Australia	—2.1	3.6	5
OPEC	—26.5	31.6	—20
Brazil	—1.4	0.4	28
Mexico	—1.4	—0.3	142
China	1.3	—0.8	38
Hong Kong	5.7	—4.2	48
Korea	3.0	—2.4	41
Malaysia	—1.5	1.4	27
Philippines	—0.3	0.3	—27
Singapore	2.8	—2.4	18
Taiwan	2.8	—2.9	40
Thailand	1.4	—0.8	—7

*$37.2 billion by U.S. CIF valuation (see Table 8).

these can only be put into effect gradually over a period of years. The strategy should stress the narrowing of the twin U.S. deficits by creating positive opportunities for living standards and investment worldwide; and the removal of the barriers to internal and external trade that shelter waste and inefficiency.

In situations of payments imbalance, there has always been a tendency to demand adjustment of deficit nations without parallel adjustment by those in surplus. It is now high time to tackle not just the U.S. current account deficit, 2.8% of GNP last year, but also the similar surplus of Japan and the still larger surpluses of the Netherlands, Switzerland, and Taiwan (4.5%, 3.5%, and 13%, respectively).

No international strategy will go anywhere without committed U.S. leadership, beginning with steady and substantial progress in curbing the federal budget deficit. The deficit should be cut at least in half during the next three years. The Administration and the Senate Budget Committee broadly agree on some $50 billion as the FY 1986 installment. While sharp differences continue over the distribution of cuts, compromise on an acceptably balanced package now begins to look possible. If the full amount cannot be secured by spending cuts, an element of revenue enhancement may have to be conceded.

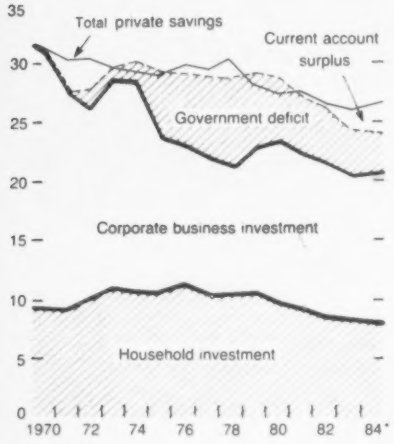
For the purpose of narrowing the trade deficit, which represents the shortfall of domestic savings below investment, it matters little whether investment is cut back or savings are increased. How that balance is struck, however, makes a great deal of difference for the future vitality of the U.S. economy. Accordingly, there is a close economic linkage between deficit cutting — which would lessen government preemption of private savings — and tax simplification. The challenge lies in preserving investment while curbing public and private consumption. That would be no mean feat, since consumption is a prime mover of investment. Probably the best that can be done is to secure a favorable tax environment for investment so that it will not suffer unduly as consumption is curtailed. This is the basic reason to subordinate tax increases to expenditure reductions as the means to cut the budget deficit. As for tax simplification, any restructuring of investment incentives in this "age of the entrepreneur" should aim to lighten the tax burden on activities that are fundamentally productive, if necessary at the expense of those lacking clear economic worth. At the same time, deregulation of financial services should be pushed ahead so that new investment may be more efficiently allocated and the capital stock be better utilized.

One aspect of tax simplification has important international implications. Reduction of marginal tax rates, on both business and individuals, should lower the level of nominal pretax interest rates required to achieve a given restraint in credit demands. Suppose, for example, that a borrower can afford after-tax real interest costs of no more than 3% while inflation runs at 3%. At a marginal tax rate of 50%, full deductibility of interest costs enables the borrower to carry a pretax nominal interest rate of 12%. But if the marginal tax rate falls to 33%, the maximum viable pretax nominal interest rate comes down to 9%. Thus, tax simplification has the potential to induce a significant fall in U.S. interest rates, which would be most helpful for developing countries and which could also lessen currency pressures on U.S. industry.

If the U.S. current account deficit is to narrow, so also must Japan's outsized surplus. For Japan, the reduction should be at least $25 bil-

Chart 6

Japan's savings – investment gap
percent of GNP



* estimated

lion over the next three years. Japan's excess of private saving over private domestic investment has been very large since the early 1970s (see Chart 6). Although Japan's savings rate has eroded, the domestic investment rate has fallen much more. While some of the excess is drained off by public-sector dissavings, much of the remainder is said to be structural.

There are several ways in which Japan could tackle its savings-investment gap. First, even though there may be little scope for stepped-up business investment targeted to domestic needs, that is far from the case with potential public investment in Japan's relatively neglected areas, such as public housing, sewers, education, and cultural and recreational facilities. In principle, tax increases could finance such investment without widening the budget deficit, yet still provide a net stimulus to domestic demand.

Second, Japan's personal savings propensity is unnaturally high for a maturing industrial society, notwithstanding its former virtues during the era of postwar reconstruction. While the accumulation of foreign assets may be an attractive option for the future support of an aging population, the accompanying trade surpluses exact a heavy price in Japan's relationships with trade partners. High personal savings rates could be diminished by tax reforms to correct the anticonsumption bias of the tax code due to its effective exemption of most household interest earnings; and by financial reforms to cut the cost, and increase the availability, of consumer and mortgage credit.

Third, the government's deficit reduction commitment should be reconsidered. The pileup of public debt is no real problem in the context of the chronic domestic savings excess. It does dictate more sophisticated debt management techniques than were formerly necessary, but these are all to the good in furthering needed liberalization of the financial system. Overhaul of Japan's budget deficit goals need not invite wasteful spending. Given Japan's limited defense expenditures of barely 1% of GNP, an appropriate object of increased spending would be official development aid, currently a mere 0.3% of GNP and predominantly tied to Japanese exports. A reduction in Japan's personal tax burden also would be worthwhile, bringing possible supply-side benefits as well as a boost for disposable incomes and consumption.

Whereas Japan should be stimulating domestic demand primarily for the purpose of bringing down its trade surplus, the main object of domestic stimulus in Europe must be faster growth and the reduction of unemployment. The jobless rate in the four major countries has averaged over 10% during the last three years and still shows no definite sign of coming down. Europe's present economic growth rate is making no inroad on the past shortfall of output below potential. Europe's inflation is stable or falling, being hardly more than 2% in Germany despite the weakness of its currency. Germany also enjoys a sizable current account surplus. Despite the apparent leeway for domestic stimulus, most European governments oppose reversal of their commitments to cut budget deficits further — even where, as in Germany, the deficits are wholly explained by the depressed cyclical situation. Deficit discipline is widely seen as the only viable means to contain public spending. Certainly, spending restraint is much needed in economies where the dominance of the public sector is a major source of institutional rigidity and where social transfers impede flexible functioning of labor markets. Preoccupied with expenditure control, however, Euro-

pean governments have been timid in reforming tax structures, let alone in reducing overall tax burdens. Henceforward, tax reduction should be Europe's top priority to boost consumption and investment.

Stepping up Europe's domestic growth by two percentage points could slice one-third from the unemployment rolls after three years. Even if budget deficits widen, there is ample evidence by now, from Japan and the United States for example, that taut monetary policies can inhibit any significant inflation penalty. True, more expansionary policies would shrink Europe's trade surpluses, but that would be a setback only in primitive mercantilist terms.

The need for Japan and Europe to acquiesce in lower trade surpluses is all the greater in view of the financial constraints on developing countries. While much has been achieved in terms of balance of payments improvement, much remains to be done in tackling entrenched internal obstacles to market-disciplined development. Internal reforms, featuring realistic interest and exchange rates to tame actual or incipient hyperinflation, offer the only promise of finally halting and reversing capital flight. Unless local investors regain confidence in opportunities at home, developing countries have little hope of attracting substantial foreign investment — especially if outmoded nationalist sensitivities block potential foreign investors who are free to choose production locations around the world. Once thoroughgoing reforms are implemented, foreign direct investment and the return of flight capital can provide valuable financial support to developing countries. For some time to come, however, it is simply unrealistic to suppose that capital flows from either commercial or official sources will enable LDCs to run large current account deficits or to step up their imports from the United States to an extent that will provide a major reduction in the U.S. deficit. Equally, abrupt shrinkage of U.S. imports in the interest of deficit reduction would see the LDC debt crisis come back with a vengeance.

The final leg of an international strategy for economic progress is the new round of global trade negotiations that President Reagan has proposed. Unless protectionist impulses are defused by multilateral talks that are under way and progressing, national trade policies are likely to go backward. Besides access issues vis-à-vis Japan, the United States has major trade grievances with Europe — notably in agriculture, high technology, and services — and with most developing countries concerning services and direct investment. For their part, U.S. trade partners have frictions one with another and, collectively, vis-à-vis the United States over its protectionist stance in agriculture, textiles, steel, and other basic manufactures. With Europe's reservations about a "new" trade round now seemingly lessening, the summit leaders should set a firm schedule for actual negotiations. Previous summits have paid lip service to free trade. Realistically, no doubt, trade will always be "managed," but its management should at least be liberal and constructive.

What the strategy can accomplish

The international strategy just outlined is ambitious. Because the strategy involves structural reforms and policy adjustments, whose timing and consequences are less than certain, the course of the U.S. trade deficit cannot be foreseen with precision. However, Scenario E in Table 1 illustrates the general magnitudes of the potential benefits. Compari-

son of the five scenarios demonstrates the clearly superior results achievable through the international strategy. It lessens the financial, economic, and political risks of sheer inaction. It calls for global trade expansion, not contraction. And it averts the very real risk of world recession posed by the purely belt-tightening approach of those who pin all the world's evils on the U.S. budget deficit; instead, it shows the crucial importance of expansionary policies in Japan and Europe concurrent with U.S. fiscal progress. In addition, the international strategy avoids the inflationary upsurge that sole reliance on drastic dollar devaluation would breed. Nonetheless, it does envisage a moderate depreciation of the dollar over the next three years, to a real effective index level of around 110 in 1988 — 15% below the present level. Because the dollar would remain well above its 1980-82 base period level, its decline would have only a mild impact on U.S. inflation. Depreciation of the suggested order is the more likely to occur the sooner the other elements of the international strategy come into place. Changing the direction of the dollar by the above magnitude is most likely to occur once the several elements of the international strategy come into place. Exchange market intervention will not turn the trick. At best it can only assist short-term stabilization.

With this international strategy, the U.S. current account deficit could be brought down to about $25 billion by 1989, a level consonant with the probable U.S. share in global overstatement of current account deficits. The trade deficit would begin to shrink as early as the end of this year. As for domestic consequences, gradual fiscal contraction would cause domestic demand to grow less than U.S. economic potential. But the improvement in net exports would mean that U.S. real GNP could rise marginally faster, enabling considerable reduction of U.S. unemployment. The dollar's moderate decline would provide meaningful competitive relief to U.S. industry, without triggering a destructive surge in wages and prices. Indeed, U.S. inflation would be capped at about 5%, while the projected decline in nominal U.S. interest rates would eventually bring real interest rates down to 3%. While the strategy does not promise further gains on inflation, its other benefits would be impressive.

All this presumes that real GNP growth in the industrial countries, excluding the United States, exceeds 4.5% during the next four years. That would compare with the 2% rate accomplished from 1980 to date and would effectively reverse the growth gap that has prevailed vis-à-vis the United States since the recession. Although, at first sight, recent experience argues against such a pickup in foreign growth, the projected rate is not out of line with what was actually achieved during the second half of the 1970s. What it now would involve is Japanese growth averaging around 1% higher than existing policies suggest and European growth sufficient to cut unemployment significantly.

Failure to adopt this balanced international strategy poses the grave danger that the U.S. trade deficit will be corrected by undesirable means. There are incalculable risks to the world economy in opting for protectionism that breeds bitterness; for deep devaluation of the dollar that inflames inflation; or for needless cutbacks in U.S. living standards or investment that lead only to global recession and still greater unemployment. The challenge to the summit leaders at Bonn is to avoid the risks embodied in these short-sighted approaches. Instead, they must seek to direct the major countries along the lines of the international strategy outlined in this article. It is the only means of solving the U.S. trade problem in a climate of economic growth and opportunity.

Statistical appendix

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	96.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.6	107.6	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	98.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1984																
April	116.7	97.5	115.7	95.1	85.2	108.6	87.3	88.9	104.1	89.0	104.8	78.1	111.3	94.0	98.9	83.7
May	119.5	96.8	114.6	95.1	84.6	107.7	88.9	89.1	103.8	88.8	104.4	78.4	110.9	93.6	99.1	83.6
June	120.2	96.2	113.3	93.0	84.9	108.2	87.0	88.6	104.2	88.9	104.6	78.0	110.1	93.8	99.1	83.4
July	124.2	95.4	110.8	90.3	84.6	107.7	87.3	87.7	104.1	89.3	104.0	77.3	107.9	93.7	97.4	84.4
August	124.0	97.0	111.4	91.9	84.3	107.3	88.6	87.9	103.8	89.3	103.8	76.6	108.8	93.6	97.1	84.6
September	127.3	96.7	112.0	92.1	83.6	106.2	85.9	87.1	103.2	88.9	103.1	76.9	109.3	93.2	96.9	85.6
October	128.5	96.6	112.0	93.6	83.7	106.3	85.7	85.3	103.2	88.7	103.2	77.0	109.8	93.4	97.1	85.6
November	126.8	96.5	112.5	95.0	84.0	106.7	85.6	85.2	103.4	89.3	103.5	77.4	110.2	94.2	95.5	85.1
December	129.5	96.7	112.0	94.8	83.6	106.1	86.0	83.7	103.2	89.3	103.0	77.8	109.5	94.5	95.5	85.0
1985																
January	132.0	96.9	110.5	93.8	83.7	106.2	86.3	81.0	103.4	89.9	103.0	78.1	107.8	95.0	95.7	85.0
February	136.4	95.3	110.0	86.8	83.5	105.8	85.4	81.4	103.3	89.3	102.5	77.6	105.9	94.4	95.8	85.5
March	136.8	93.2	111.3	81.6	83.7	106.0	83.6	84.0	103.2	89.0	102.6	77.2	105.9	94.1	95.7	84.5
February 15	135.5	96.3	109.7	88.1	83.5	106.3	85.8	81.0	103.4	89.3	102.3	77.8	105.3	94.5	95.9	85.5
22	137.7	94.8	110.4	82.8	83.3	105.5	85.2	81.7	103.3	89.0	102.2	77.6	106.2	94.1	95.9	85.8
March 1	139.1	93.1	111.3	84.2	83.4	105.5	84.2	81.2	103.3	88.8	102.3	77.2	105.6	94.1	95.8	85.4
8	139.7	92.7	111.5	82.5	83.4	105.6	84.5	81.4	102.8	88.8	102.4	77.0	105.1	93.9	95.6	85.0
15	138.7	93.1	111.3	82.2	83.6	105.7	84.0	82.2	102.9	89.1	102.4	77.0	105.7	94.0	95.6	84.6
22	135.6	93.5	111.4	81.2	83.7	106.0	83.1	85.2	103.3	88.9	102.7	77.4	106.2	94.2	95.8	84.5
29	133.0	93.3	111.2	80.0	84.2	106.4	82.9	87.5	103.5	89.0	102.9	77.4	106.7	96.5	95.7	83.9

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980	89.4	99.6	103.0	93.0	102.2	103.5	103.5	99.9	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.7	99.2	97.7	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.6	103.1	96.6	100.0	95.9	99.3	100.1	92.0	101.6	92.0	101.8	90.6	105.3	98.8	101.2	91.5
1984	118.1	101.2	97.6	105.1	96.4	96.5	100.9	89.2	102.5	90.6	100.1	95.1	102.0	96.4	100.1	96.9
1984																
April	113.0	101.4	100.4	105.2	96.6	97.9	101.2	89.9	103.0	90.6	101.3	95.0	103.2	95.5	101.0	95.5
May	115.7	100.5	99.1	105.6	97.0	96.8	101.1	90.1	102.4	90.9	100.5	95.6	101.7	95.5	101.7	95.7
June	116.4	99.9	97.7	103.6	97.2	97.0	101.3	89.6	102.9	90.8	100.9	95.6	101.1	97.1	101.2	95.3
July	119.9	99.5	95.3	101.1	97.4	96.6	101.7	88.8	102.8	90.8	100.2	95.1	98.8	95.3	99.0	97.0
August	119.4	101.1	95.9	103.2	96.8	96.0	101.3	89.2	102.7	91.2	99.9	94.3	100.3	95.8	98.5	97.8
September	121.4	101.3	96.7	103.8	95.9	95.1	100.9	88.5	101.8	90.8	99.1	95.6	100.6	97.1	99.4	98.9
October	123.6	100.3	96.0	105.0	96.0	95.2	100.7	86.6	101.6	90.2	98.9	96.0	101.4	96.6	100.1	99.1
November	122.0	100.4	96.2	106.9	96.9	95.4	100.4	86.7	102.4	90.6	98.9	97.1	101.5	98.0	98.3	98.4
December	124.1	101.1	95.6	106.9	96.7	94.7	100.9	85.4	102.2	90.5	98.4	97.9	101.2	98.2	98.0	98.7
1985																
January	126.2	101.3	94.1	105.6	96.5	95.1	102.0	83.3	102.2	90.4	97.9	98.8	99.3	97.8	97.4	99.6
February	130.0	100.0	93.6	97.8	96.5	94.8	101.1	83.9	101.9	89.6	97.2	97.9	97.6	96.9	97.3	100.5
March	130.2	97.8	94.5	92.0	96.8	95.0	99.1	86.9	101.8	89.0	97.0	97.8	97.7	96.4	96.8	99.7

Real effective exchange rates — developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1980	116.4	84.7	95.3	94.7	103.7	93.1	91.3	98.4	89.6	95.9	96.2	94.7	98.6	100.9	92.9	102.9
1981	108.0	103.5	106.1	100.5	112.4	103.2	99.6	99.5	99.6	101.2	99.5	100.5	102.7	102.6	99.3	102.5
1982	76.1	112.2	96.6	104.8	83.9	103.7	109.1	102.6	110.8	103.0	104.8	104.9	98.7	96.5	107.8	94.6
1983	71.3	85.6	88.8	103.9	85.6	97.6	116.0	97.0	95.6	97.3	113.0	94.3	97.1	93.1	119.5	95.3
1984	80.1	85.4	89.9	99.3	103.5	100.5	84.4	100.7	98.1	95.8	119.3	108.1	95.8	95.4	118.1	87.7
1984																
March	75.3	80.2	87.3	99.2	96.5	103.6	71.1	95.3	93.7	93.9	115.8	104.2	95.4	91.8	114.6	83.0
April	80.4	79.0	88.8	99.2	99.3	102.7	71.5	96.5	93.9	94.0	116.6	106.3	95.8	92.6	115.0	83.2
May	84.0	80.8	89.8	99.7	102.1	103.5	74.0	98.1	95.6	94.8	118.3	111.6	95.9	94.1	116.7	85.7
June	83.5	83.3	90.3	98.9	103.2	99.3	77.2	98.6	96.5	95.1	118.7	101.6	95.2	94.5	117.5	85.5
July	85.9	86.3	91.4	99.4	104.6	98.8	79.6	100.9	98.9	96.0	121.0	105.3	95.6	96.6	117.7	87.1
August	86.2	86.2	92.5	99.2	104.2	99.8	83.5	101.2	105.9	96.1	121.6	107.0	96.1	97.5	119.1	89.5
September	88.9	88.6	93.1	100.2	105.7	100.1	82.7	104.0	105.9	97.5	123.7	114.4	96.7	98.9	122.0	90.3
October	82.1	89.9	89.7	98.5	107.6	99.1	83.8	105.7	97.8	97.2	121.3	113.1	96.0	98.1	122.1	91.4
November	73.1	88.5	88.3	97.8	108.7	96.1	84.5	105.1	96.3	96.3	119.9	109.7	94.9	96.7	119.0	91.2
December	76.2	91.1	87.1	98.8	110.2	93.5	85.3	108.0	98.6	96.8	121.0	112.6	95.3	97.3	113.5	92.0
1985																
January	73.1	94.2	88.4	99.9	111.2	90.3	87.5	110.4	99.9	96.9	122.3	135.8	95.5	98.2	110.7	92.6
February	73.0	93.5	90.0	101.0	113.6	82.9	89.9	113.3	106.0	97.9	120.9	138.7	95.6	100.3	119.3	95.0

International banking market size

at end of period, billions of dollars

	1980r	1981r	1982r	1983		1984		
				Sepr	Decr	Marr	Junr	Sep
Gross claims								
Eurocurrencies, on residents and nonresidents	**1 559**	**1 924**	**2 140**	**2 193**	**2 253**	**2 341**	**2 325**	**2 321**
On nonbanks	430	579	705	658	712	736	719	727
On banks	1 129	1 345	1 435	1 535	1 542	1 605	1 606	1 594
In dollars	1 167	1 505	1 696	1 748	1 796	1 842	1 846	1 856
In other currencies	392	419	444	445	457	499	479	465
Domestic currencies, on nonresidents	**349**	**370**	**405**	**482**	**405**	**409**	**415**	**402**
On nonbanks	143	154	264	179	143	145	149	147
On banks	206	216	141	223	262	264	266	256
In dollars	177	194	220	219	224	215	227	217
In other currencies	172	176	185	183	181	194	186	185
Total	**1 908**	**2 294**	**2 545**	**2 595**	**2 658**	**2 750**	**2 740**	**2 723**
On nonbanks	573	733	969	837	855	881	868	1 849
On banks	1 335	1 561	1 576	1 758	1 804	1 869	1 872	874
In dollars	1 344	1 699	1 916	1 967	2 020	2 057	2 073	2 073
In other currencies	564	595	629	628	638	693	665	650
Gross liabilities								
Eurocurrencies, to residents and nonresidents	**1 574**	**1 950**	**2 164**	**2 217**	**2 280**	**2 385**	**2 362**	**2 350**
To nonbanks	278	392	457	448	496	519	523	513
To official monetary institutions	127	113	91	88	88	86	88	94
To other banks	1 168	1 448	1 616	1 681	1 696	1 782	1 751	1 743
In dollars	1 193	1 538	1 744	1 736	1 849	1 885	1 907	1 914
In other currencies	381	412	420	481	431	480	455	436
Domestic currencies, to nonresidents	**294**	**267**	**255**	**250**	**263**	**268**	**284**	**280**
To nonbanks	85	177	167	85	77	77	77	78
To banks	199	90	88	165	186	191	207	202
In dollars	130	130	121	120	133	134	147	148
In other currencies	145	137	134	129	125	134	137	134
Total	**1 858**	**2 217**	**2 419**	**2 467**	**2 543**	**2 653**	**2 646**	**2 630**
To nonbanks	363	569	624	533	573	595	600	591
To banks and official institutions	1 494	1 649	1 795	1 934	1 970	2 038	2 048	2 039
In dollars	1 332	1 669	1 865	1 857	1 987	2 019	2 054	2 060
In other currencies	526	548	554	610	556	614	592	570
Net market size	**941**	**1 176**	**1 332**	**1 333**	**1 343**	**1 383**	**1 371**	**1 351**

International bond issues and bank credits

millions of dollars

	1982	1983	1984r	1984	1985		Jan-Feb	
				Decr	Janr	Feb	1985	1984
By country of borrower								
Industrial countries	**108 772**	**102 652**	**177 077**	**11 997**	**17 886**	**15 260**	**33 147**	**30 143**
Australia	7 213	5 737	5 816	600	752	871	1 623	484
Austria	2 068	1 290	2 254	203	337	—	337	599
Belgium	1 528	2 168	1 847	—	400	35	435	86
Canada	15 856	8 571	13 124	4 100	4 414	859	5 272	2 068
Denmark	2 725	3 941	4 825	182	398	394	792	891
Finland	1 446	1 271	1 713	42	305	100	405	335
France	14 813	8 626	11 298	723	899	1 536	2 436	2 204
Germany	1 101	3 197	2 165	167	287	104	390	754
Greece	808	1 291	1 551	204	297	172	469	—
Ireland	1 136	1 869	1 377	65	498	38	536	99
Italy	6 687	4 876	6 933	292	661	1 421	2 082	951
Japan	8 397	14 428	17 526	588	2 612	1 821	4 433	4 203
Netherlands	1 000	1 213	1 973	—	139	106	245	439
New Zealand	4 786	802	3 208	40	311	53	364	131
Norway	2 601	1 969	1 324	73	100	138	238	125
Portugal	1 684	1 030	1 796	70	20	242	262	271
South Africa	1 889	1 300	1 422	21	179	22	202	227
Spain	2 675	4 977	4 931	174	209	702	911	1 104
Sweden	3 181	7 144	11 256	59	649	590	1 239	721
United Kingdom	2 836	2 726	8 899	616	492	931	1 423	1 923
United States	21 109	20 276	65 054	3 607	3 835	4 935	8 770	12 154
*Other**	3 233	3 950	6 785	171	94	190	284	374
Developing countries	**49 023**	**38 256**	**39 725**	**6 163**	**1 933**	**824**	**2 757**	**11 509**
Latin American countries	**29 667**	**15 592**	**17 464**	**4 450**	**196**	**251**	**447**	**6 725**
Argentina	1 565	1 750	4 212	4 200	—	—	—	—
Brazil	5 972	4 475	6 649	—	—	—	—	6 500
Chile	1 194	1 405	784	—	—	—	—	—
Colombia	776	552	589	—	—	—	—	195
Mexico	9 968	5 138	3 918	—	—	—	—	—
Venezuela	7 241	237	—	—	—	—	—	—
*Other***	2 951	2 035	1 312	250	196	251	447	30
Asian countries	**11 723**	**12 978**	**15 893**	**1 073**	**657**	**514**	**1 170**	**3 035**
India	555	968	945	40	200	42	242	50
Indonesia	1 822	2 363	1 924	—	—	—	—	765
Korea	3 277	4 387	6 201	151	247	72	318	682
Malaysia	2 872	2 197	2 605	862	—	—	—	804
Philippines	888	878	925	—	—	—	—	—
Thailand	414	747	1 221	—	—	400	400	380
Other	1 895	1 438	2 072	20	210	—	210	354
Middle Eastern and African countries	**7 633**	**9 686**	**6 368**	**640**	**1 080**	**60**	**1 140**	**1 749**
Algeria	86	1 993	821	—	600	—	600	—
Nigeria	2 069	2 343	985	—	—	—	—	985
Turkey	277	1 106	741	—	—	—	—	350
Other	5 201	4 244	3 821	640	480	60	540	414
Eastern European countries	**1 479**	**1 294**	**3 244**	**80**	**536**	**—**	**536**	**777**
Hungary	340	741	1 386	80	230	—	230	412
Soviet Union	1 131	93	1 051	—	206	—	206	365
*Other****	8	460	807	—	100	—	100	—
International organizations****	**11 353**	**16 201**	**13 287**	**1 392**	**1 756**	**1 368**	**3 124**	**2 355**
By type of instrument and currency								
International bond issues	**78 042**	**76 329**	**107 411**	**7 439**	**13 305**	**13 928**	**27 233**	**20 088**
Eurobonds	51 645	48 501	79 458	5 740	10 944	11 909	22 853	15 204
U.S. dollar	43 959	38 428	63 593	4 654	7 887	10 468	18 355	12 473
German mark	2 588	3 817	4 604	210	1 075	142	1 216	869
British pound	748	1 947	3 997	238	199	189	389	822
Japanese yen	374	212	1 212	313	545	546	1 091	107
European composite units	1 980	2 019	3 032	197	457	239	696	601
Other	1 996	2 078	3 020	128	781	325	1 106	332
Foreign bonds	26 397	27 828	27 953	1 699	2 361	2 019	4 380	4 884
U.S. dollar	5 946	4 545	5 487	600	500	300	800	300
German mark	2 952	2 671	2 243	354	158	89	247	469
British pound	1 214	811	1 292	—	—	65	65	267
Swiss franc	11 432	14 299	12 626	379	991	1 141	2 132	2 905
Japanese yen	3 418	3 772	4 628	225	502	334	837	513
Other	1 435	1 730	1 677	141	210	90	299	430
International bank credits	**92 585**	**82 074**	**125 922**	**12 193**	**8 806**	**3 524**	**12 330**	**24 696**
Eurocurrency credits	85 015	74 222	112 605	11 558	8 441	3 129	11 570	22 545
Foreign credits	7 570	7 852	13 317	635	365	396	761	2 151
Total	**170 627**	**158 403**	**233 333**	**19 632**	**22 111**	**17 452**	**39 563**	**44 784**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1981	1982	1983	1984					1985	
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Eurodollar										
overnight	12.87	9.25	9.50	11.50	11.63	9.81	8.69	8.63	8.50	8.44
one month	13.31	9.13	9.69	11.69	11.00	9.75	8.81	8.38	8.31	8.88
three months	13.75	9.19	9.81	11.88	11.38	10.00	9.06	8.63	8.44	9.44
six months	14.81	9.50	10.06	12.13	11.56	10.25	9.50	9.13	8.69	10.00
twelve months	14.75	9.63	10.38	12.63	11.81	10.81	10.06	9.81	9.31	10.75
Euro-Canadian dollar										
one month	15.37	10.00	9.13	12.13	11.88	11.38	10.88	9.88	9.63	10.38
three months	15.37	10.00	9.50	12.13	12.06	11.38	10.50	10.81	9.63	11.19
six months	16.37	10.13	9.75	12.38	12.00	11.56	10.56	10.06	9.63	11.75
twelve months	16.37	10.25	10.00	12.63	12.06	11.63	10.56	10.44	9.88	12.06
Euro-french franc										
one month	15.75	23.00	12.13	10.88	10.94	10.38	10.69	10.69	10.31	10.63
three months	17.00	24.00	12.19	11.88	11.25	10.69	10.88	10.69	10.56	11.00
six months	18.00	22.00	12.31	11.19	11.69	11.31	11.19	11.00	11.00	11.44
twelve months	18.25	19.75	12.63	12.69	12.13	11.75	11.63	11.38	11.63	11.88
Euromark										
one month	10.44	5.88	5.25	5.31	5.44	5.56	5.56	5.50	5.75	5.81
three months	10.50	5.88	5.88	5.50	5.75	5.81	5.56	5.50	6.00	6.06
six months	10.56	5.94	6.13	5.88	5.94	5.81	5.63	5.56	6.06	6.38
twelve months	10.25	6.00	6.38	6.19	6.00	5.88	5.69	5.56	6.13	6.56
Euro-Dutch guilder										
one month	10.75	5.13	5.81	6.06	6.00	5.81	5.63	5.69	6.00	6.81
three months	10.75	5.19	6.00	6.25	6.25	6.00	5.81	5.75	6.13	7.06
six months	10.75	5.38	6.25	6.56	6.38	6.13	5.88	5.81	6.19	7.13
twelve months	10.75	5.63	6.38	6.81	6.50	6.25	6.00	5.94	6.31	7.31
Euro-Swiss franc										
one month	8.87	2.81	3.38	4.50	4.69	4.63	5.13	4.44	5.38	5.50
three months	9.25	3.25	3.75	4.69	5.13	5.06	4.94	4.56	5.38	5.75
six months	9.25	3.44	3.94	4.81	5.19	5.06	4.94	4.63	5.31	5.81
twelve months	8.50	3.44	3.94	5.00	5.06	5.00	4.94	4.69	5.19	5.63
Eurosterling										
one month	15.37	10.56	9.13	10.75	10.69	10.63	9.69	9.50	13.13	14.00
three months	15.69	10.44	9.31	10.69	10.69	10.50	9.69	9.88	12.50	13.88
six months	15.69	10.31	9.50	10.63	10.69	10.44	9.81	10.00	11.94	13.13
twelve months	15.37	10.31	9.81	10.75	10.75	10.56	10.00	10.19	11.88	12.69
Euroyen										
one month	6.12	6.75	6.25	6.38	6.13	6.13	6.50	6.19	6.19	6.50
three months	6.12	6.75	6.31	6.31	6.31	6.31	6.31	6.19	6.31	6.38
six months	6.87	7.10	6.38	6.31	6.31	6.31	6.31	6.13	6.25	6.31
twelve months	6.87	6.81	6.44	6.50	6.44	6.31	6.31	6.13	6.25	6.31
European currency unit										
one month	14.63	12.44	8.81	9.06	9.63	9.50	9.19	9.25	9.94	9.94
three months	14.75	12.31	9.19	9.31	9.81	9.69	9.31	9.38	9.94	10.06
six months	15.00	12.00	9.44	9.94	10.06	9.81	9.38	9.50	9.94	10.13
twelve months	14.56	11.19	9.63	10.25	10.25	10.00	9.69	9.63	9.94	10.13

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1982	1983	1984						1985	
	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States companies										
Eurodollar	11.16	11.59	12.70	11.97	12.09	11.85	11.17	11.25	11.05	11.65
Euromark	7.24	7.34	7.74	7.40	7.30	7.19	7.08	6.95	7.19	7.57
Swiss franc	5.70	5.83	5.76	5.69	5.72	5.78	5.70	5.73	5.85	5.95
European governments										
Eurodollar	12.53	12.65	13.61	13.03	12.92	12.49	12.00	12.04	11.72	12.40
Euromark	8.10	8.12	8.31	7.94	7.78	7.61	7.43	7.39	7.54	7.88
Swiss franc	5.40	5.63	5.47	5.38	5.39	5.40	5.43	5.24	5.17	5.35
European currency unit	n.a.	11.77	11.60	11.58	11.43	11.00	10.79	10.64	10.62	10.65

Central bank discount rates

at or near end of month

	1981	1982	1983	1984			1985		Current	
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar 29 1985	effective since
United States	12.00	8.50	8.50	9.00	8.50	8.00	8.00	8.00	8.00	Dec 24, 84
Canada	14.66	10.05	9.96	11.71	10.75	10.16	9.75	10.95	10.40	Mar 28, 85
Austria	6.75	4.75	3.75	4.50	4.50	4.50	4.50	4.50	4.50	Jun 28, 84
Belgium	15.00	11.50	10.00	11.00	11.00	11.00	11.00	11.00	11.00	Feb 16, 84
Denmark	11.00	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.30	8.50	9.50	9.50	9.50	9.50	9.50	9.00	9.00	Feb 1, 85
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	5.00	4.00	4.50	4.50	4.50	4.50	4.50	4.50	Jun 29, 84
Ireland	17.15	14.35	11.50	13.00	14.00	13.75	13.75	13.75	13.75	Dec, 84
Italy	19 00	18.00	17.00	16.50	16.50	16.50	15 50	15.50	15.50	Jan 4, 85
Netherlands	9.00	5.00	5.00	5.00	5.00	5.00	5.00	5.50	5.50	Feb 1, 85
Norway	9.00	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	19.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	11.00	10.00	8.50	9.50	9.50	9 50	9.50	9.50	9.50	Jun 29, 84
Switzerland	6.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.37	10.00	9.00	10.38	9.38	9.38	13.75	13.75	12.75	Mar 29, 85
Japan	5.50	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13 00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	13.50	15.45	18.50	22.25	21.25	21.25	21.85	22.33	22.40	Mar 4, 85
Argentina	98.50	128.54	183.75	221.31	221.31	221.31	231.89	231.89	231.89	Jan 16, 85
Korea	10.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.69	6.30	8.05	10.93	11.06	12.11	n.a.	n.a.	12.11	Dec, 84
Singapore	9.50	7 00	7.00	7.00	6.75	6.75	6.50	6.50	6.50	Jan 2, 85
Thailand	14.50	12.50	13.00	13.00	12.00	12.00	12 00	12.00	12.00	Nov, 84
Venezuela	14.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1981	1982	1983	1984						1985	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	12.37	8.95	9.47	11.23	11.64	11.30	9.99	9.43	8.38	8.37	8.51
Canada	14.53	10.63	8.78	11.41	12.25	12.13	11.95	11.22	10.50	9.75	9.88
Austria	7.50	6.00	5.75	6.50	6.63	6.63	6.75	7.25	7.63	6.75	6.50
Belgium	12.78	9.43	8.65	10.22	10.72	8.79	9.57	10.24	9.02	9.60	9.37
Finland	11.30	11.50	16.70	16.53	16.50	16.10	15.75	15.48	15.07	14.57	14.18
France	15.46	12.88	12.27	11.45	11.43	11.36	11.04	11.18	10 95	10.56	10.64
Germany	10.65	6.07	5.60	5.57	5.53	5.56	5.61	5.52	5 55	5.54	5.79
Ireland	16.88	14.54	12.19	12.00	11.88	12.38	13.50	14.25	14.50	14.88	n.a.
Italy	20.63	19.00	17.88	16.75	16.63	17.34	17.38	17.25	17.25	16.06	16.00
Netherlands	10.67	5.31	5.84	5.98	5.85	5.84	5.90	5.57	5.60	5.78	5.75
Norway	18.60	11.00	13.00	12 00	12.50	13.00	13.00	13.00	13.00	12.50	12.75
Spain	18.73	20.30	16.41	11.15	12.69	12.51	10.83	12.99	12.18	11.43	12.16
Sweden	13.82	8.63	11.48	12 95	13.50	13.50	12.50	10.95	12.15	10.49	13.50
Switzerland	3.38	1.25	1.88	2.88	2.00	2.50	2.00	1.50	1.50	2.63	1.75
United Kingdom	9.13	6.70	7.78	8.63	10.50	7.28	7.38	7.55	6.31	7.38	11.94
Australia	12 84	11.04	4.56	11.34	10.94	10.56	10.61	10.92	10.88	10.89	11.14
Japan	6.70	6 92	6.44	6.03	6.11	6.32	6.15	6.10	6.41	6.17	6.16
South Africa	12.75	14.15	16.06	18.06	20.30	22.63	21.50	21.50	21.13	22.19	21.56
Argentina	84.93	155.32	178.30	194.56	194.56	194.56	215.99	215.99	215 99	226.61	226.61
Brazil	103.74	150.42	184.69	283.79	242.73	285.03	328.87	244.59	272.02	n.a.	n.a.
Hong Kong	10.75	9.13	13.90	23.40	11.30	11.99	8.47	7.23	6.80	6.94	6.18
Korea	14.40	13.84	11.40	11.70	11.70	11.20	11.30	10.90	10 00	8.90	9.30
Philippines	14.70	16.12	31.18	39.79	29.13	34.29	40.09	32.17	15.22	23.15	n.a.
Singapore	3.96	11.45	7.05	7.67	8.05	8.16	7.54	6.29	6.01	5.40	6.07

Treasury bill rates

bond equivalent yields, at or near end of month

	1981	1982	1983	1984						1985	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	11.90	8.15	9.28	10.67	11.06	10.64	9.69	8.71	7.99	7.88	8.87
Canada	14.41	9.80	9.71	12.73	12.13	12.02	11.46	10.50	9.84	9.50	11.27
Belgium	16.00	12.25	10.85	11.75	11.50	11.00	11.00	10.75	10.75	10.70	10.70
Ireland	17.35	14.70	11.63	13.23	12.81	12.71	12.90	14.80	15.10	14.07	n.a.
Italy	21.36	19.11	16.95	14.99	14.99	15.40	15.30	14.90	14.69	13.75	n.a.
Netherlands	9.75	5.63	5.63	5.75	5.75	5.50	5.63	5.63	5.88	6.31	6.51
Spain	n.a.	15.28	14.46	10.30	9.44	8.91	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	n.a.	12.90	11.75	14.12	14.06	13.80	11.83	12.04	11.83	13.53	14.28
United Kingdom	15.31	9.90	9.08	11.77	10.22	10.39	10.06	9.34	9.37	12.50	14.04
Australia	13.27	9.39	8.54	10.80	9.74	9.60	10.75	10.98	12.27	12.22	13.51
Japan	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	7.80	7.80	7.80	7.80	13.50	13.50	13.50	17.50	17.45
South Africa	14.55	14.62	18.43	19.69	23.02	23.02	23.03	21.82	21.94	23.05	23.01
Brazil	92.62	115.40	179.15	179.15	179.15	269.00	273.03	273.03	273.03	n.a.	n.a.
Mexico	33.23	57.44	53.78	50.31	50.13	48.36	47.88	47.10	47.71	n.a.	n.a.
Philippines	13.22	14.54	15.99	33.34	37.51	42.56	46.30	48.67	47.14	35.69	n.a.
Singapore	3.03	2.74	2.59	3.00	3.01	3.01	3.01	2.85	2.82	2.93	2.93

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1981	1982	1983	1984						1985	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	12.78	8.81	9.75	11.36	11.58	10.94	9.59	8.84	8.22	8.06	9.05
Canada	15.25	9.95	9.87	13.05	12.30	12.25	11.80	10.80	10.10	9.65	11.80
Belgium	16.00	12.35	11.00	11.90	11.50	11.00	11.00	10.75	10.70	10.75	10.70
France	15.25	12.75	12.19	11.63	11.18	10.94	10.18	10.56	10.69	10.31	10.69
Germany	10.50	6.20	6.30	6.05	5.90	6.05	6.05	5.80	5.75	5.85	6.25
Ireland	18.50	15.75	12.19	13.75	13.25	13.06	13.75	15.38	15.13	14.63	n.a.
Italy	21.00	19.00	17.88	16.63	16.63	17.25	17.25	17.25	17.25	16.00	16.13
Netherlands	11.00	5.25	6.00	6.44	6.38	6.19	6.06	5.94	5.75	6.50	7.19
Portugal	13.80	15.05	24.11	24.65	24.53	24.60	24.52	24.51	24.57	24.57	24.53
Spain	15.52	16.55	18.48	12.91	13.19	12.86	12.54	12.95	12.13	12.27	12.22
Switzerland	10.12	3.88	3.88	4.88	5.38	5.38	5.25	5.00	5.00	5.63	6.13
United Kingdom	15.69	10.50	9.31	12.31	10.69	10.69	10.88	9.69	9.88	12.50	13.88
Australia	16.00	10.65	9.50	12.50	11.10	11.30	11.30	11.75	12.50	13.55	14.60
Japan	6.30	6.80	6.42	6.33	6.32	6.32	6.30	6.30	6.29	6.26	6.32
New Zealand	16.05	16.75	12.10	16.50	15.25	16.75	16.25	15.25	15.25	18.75	22.75
South Africa	15.47	15.26	19.12	20.78	23.39	23.56	23.56	22.11	22.78	24.07	24.12
Chile	34.54	71.44	22.42	19.56	18.16	39.29	52.87	56.45	22.42	22.42	34.49
Hong Kong	14.18	10.13	12.84	17.06	12.83	12.78	10.13	8.78	8.26	7.85	7.64
Indonesia	14.48	18.50	19.50	21.00	21.00	21.00	20.00	19.00	19.00	19.00	20.50
Korea	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.50	8.50	9.80	10.20	10.50	10.30	15.00	10.00	10.30	9.50	9.30
Philippines	17.70	15.96	15.61	19.55	27.32	19.54	31.23	38.67	33.21	29.38	n.a.
Singapore	7.81	8.69	8.44	9.06	9.03	8.81	7.38	6.69	7.00	6.00	6.44
Taiwan	10.94	9.94	7.65	7.27	6.62	7.27	5.17	6.17	8.07	6.78	9.14
Thailand	14.29	12.25	16.00	13.50	13.50	14.50	14.00	12.00	12.00	14.00	17.75

Commercial bank deposit rates

at or near end of month

	1981	1982	1983	1984						1985	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	12.62	8.25	9.70	11.38	11.58	10.95	9.95	8.85	8.35	8.06	9.22
Canada	15.20	9.85	9.82	13.00	12.25	12.20	11.75	10.75	10.05	9.60	11.75
Austria	9.63	6.25	6.50	6 88	6.94	7.06	7.38	7.63	7.50	6.94	6.88
Belgium	15.50	12.25	11.25	11.63	11.25	10.88	10.75	10.63	10.63	10.75	10.87
Denmark	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	4.75
France	9.16	8.24	7.66	7.50	7.30	7.30	7.08	7.14	7.04	6.85	6.90
Germany	9.50	6.00	5.90	5.55	5.40	5.30	5.40	5.30	5.25	5.35	7.75
Ireland	18.38	15.25	11.75	13.13	12.75	12.75	13.25	14.75	14.63	14.25	n.a.
Italy	13.25	13.25	13.25	11.64	11.64	11.64	11.64	11.64	11.64	11.00	11.00
Netherlands	11.00	5.38	6.13	6.31	6.13	6.13	6.00	5.81	5.69	6.38	7.06
Norway	12.75	13.50	12.75	12.25	12.25	12.75	12.75	12.75	12.75	12.25	13.00
Portugal	14.00	15.00	21.50	28.00	28.00	28.00	28.00	28.00	27.00	27.00	27.00
Spain	11.78	12 53	12.62	12.50	12.38	12.18	11.76	11.67	11.64	11.34	11.02
Sweden	12.65	12.15	11.70	13.70	13.55	13.45	11.50	11.50	11.45	12.10	13.65
Switzerland	8.75	3.00	3.50	4.25	4.88	4.88	4.75	4.63	4.50	5 00	5.75
United Kingdom	15.69	10.31	9.31	12.25	10.59	10.63	10.44	9.75	9.88	13.13	13.75
Australia	15.65	10.20	10.40	12.28	10.85	10.68	11.22	11.46	12.75	13.78	13.82
Japan	6.50	7.00	6.50	6 47	6.46	6.42	6.42	6.43	6.38	6 42	6.50
New Zealand	15.50	16.50	11.50	15.00	15.50	15.25	15.00	15.50	15.25	17.00	18.75
South Africa	14.75	15.25	20.13	20.50	23.25	23.50	23.58	22.00	22.88	24.13	23.75
Argentina	86.76	103.42	176.41	188.58	188.58	270.00	320.00	285.00	380.00	285.00	280.00
Brazil	110.05	21.00	23.00	20.00	21.00	27.00	26.00	26.50	27.00	n.a.	n.a.
Chile	36 87	57.72	22.28	19.56	18.16	15.39	58.81	66.31	22 42	21.84	34.33
Hong Kong	12.50	7.50	9.00	12.50	9.50	9.50	8.00	7.50	7.00	5.50	5.50
Korea	14.40	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6 00	6.00	6.00
Malaysia	10.00	8.40	7.75	8.88	8.95	9.37	10.08	10.02	9.58	9.50	9.50
Mexico	31.82	52.54	54.70	49.00	48.35	46.45	44.90	44.90	44.90	n.a.	n.a.
Philippines	13.35	14.10	14.96	19.92	20.63	23.36	29.37	32 47	31.01	27.07	n.a.
Singapore	7.50	8.25	7.44	8.19	8.19	8.19	7.01	6.19	6.13	5.44	6.01
Taiwan	10.75	7.50	7.00	6.75	6.75	6.75	6.75	6.50	6.50	6.50	6.50
Thailand	10.00	10.00	10.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Venezuela	14.75	15.50	12.00	12.50	12.50	12.00	13.00	13.00	12.50	12.00	13.00

Domestic government bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984						1985	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	14.33	10.61	12.00	12.97	12.69	12.32	11.86	11.64	11.61	11.28	12.09
Canada	15.27	11.69	12.02	13.41	12.89	12.63	12.18	11.81	11.66	11.38	12.30
Austria	10.37	8.81	8.02	8.09	8.10	8.09	8.10	8.07	8.04	8.00	8.00
Belgium	13.99	12.66	11.89	12.05	11.82	11.85	11.74	11.47	11.56	11.56	11.58
Denmark	20.91	20.14	12.96	15.33	15.17	15.30	14.63	14.92	14.60	13 66	13.74
Finland	10.98	10.64	11.16	11.35	10.83	10.87	10.85	10.84	10.73	10.84	10.91
France	16.44	15.40	13.96	13.91	13.58	13.05	12.02	12.36	12.70	12.12	12.25
Germany	9.71	7.90	8.38	8.27	7.97	7.83	7.53	7.20	7.17	7.35	7.71
Ireland	18.28	14.54	14.25	14.89	14.95	14.98	14.99	15.25	14.90	n.a.	n.a.
Italy	21.39	19.70	17.69	15.12	15.22	15.58	15.32	15.23	14.52	13.22	n.a.
Netherlands	11.28	8.16	8.58	8.69	8.50	8.26	7.94	7.65	7.72	7.42	7.93
Norway	12.37	13 32	12.50	12.00	12.00	12.00	12.00	12.00	12.00	12.50	12.00
Portugal	17.39	16.63	22.11	21.19	20.69	21.05	20.84	21 21	22.23	n.a.	n.a.
Spain	16.20	15.92	18.71	17.66	17.14	16.66	15.86	n.a.	n.a.	n.a.	n.a.
Sweden	12.80	13.01	12.30	14.19	13.70	12.98	12.34	12.16	12.04	12 39	13.23
Switzerland	5.40	4.22	4.54	4.66	4.58	4.81	4.89	4.77	4.78	4.74	4.91
United Kingdom	15.02	10.62	9.94	11.17	10.43	10.18	10.19	9.96	10.25	10.65	10.56
Australia	15.00	13.00	13.65	13.30	13.10	13.50	13.30	13.30	13.40	13.12	13.70
Japan	8.11	7.96	7.45	7.47	7.45	7.37	7.11	6.61	6.36	6.37	7.19
New Zealand	12.55	12.84	10.50	10.25	15.03	15.31	16.65	16 60	16.60	16.85	17.45
South Africa	13.33	11.31	13.64	15.43	16.04	16.44	16.80	15.90	16.55	17.25	17.85
Philippines	13.01	13.64	14.47	12.19	20.59	38.67	27.31	34.77	18.54	21.15	n.a.
Venezuela	12.50	15.00	13.50	14.00	14.50	14.00	14.50	14.50	14.00	13.00	13.50

Commercial bank lending rates to prime borrowers

at or near end of month

	1981	1982	1983	1984						1985	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	15.75	11.50	11.00	13.00	13.00	12.75	12.00	11.25	10.75	10.50	10.50
Canada	16.50	12.50	11.00	13.50	13.00	13.00	12.50	12.00	11.25	11.00	11.50
Austria	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	18.00	15.50	13.75	14.75	14.25	14.25	14.00	14.00	14.00	14.00	14.00
Denmark	15.00	14.00	10.00	10.00	10 00	10.00	10.00	10.50	10 50	10.50	10.50
Finland	9.84	8.95	10.18	10.48	10.49	10.54	10.52	10.60	10.63	10.69	n.a.
France	14.00	12.25	12.25	12.25	12.00	12.00	12.00	12.00	11.50	11.50	11.50
Germany	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	17.25	16.50	13.75	13.75	13.75	13.75	13.75	13.75	15.75	15.75	n.a.
Italy	22.50	20.75	18.75	17.00	17.00	18.00	18.00	18.00	18.00	17.00	17.00
Netherlands	12.00	6.25	7.00	6.75	6.75	6.50	6.50	6.50	6.25	6.75	7.75
Norway	13.75	14.50	13.50	12.75	12.50	13.00	13.25	13.00	13.00	11.50	12.88
Portugal	20.50	23.50	30.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00
Spain	17.04	19.00	20.85	15.49	15.27	14.36	14.11	14.29	13.68	13.73	13.71
Sweden	15.00	15.00	13.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50
Switzerland	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.50	10.00	9.00	12.00	10.50	10.50	10.50	9.50	9.50	14.00	14.00
Australia	15.75	15.00	12.75	14.50	14.00	13.00	13.00	13.00	13.50	14.25	14.75
Japan	6.95	6.28	5.89	5.72	5.72	5 72	5.71	5.71	5.70	5.70	5.70
New Zealand	13.00	13.00	11.00	11.00	12 50	12.50	13.50	14.00	14.00	14.00	15.00
South Africa	17.00	18.00	20.00	22.00	25.00	25.00	25.00	23.50	24.00	25.00	25.00
Argentina	92.60	109.50	188.58	206.83	206.83	280.00	330.00	295.00	390 00	295.00	290.00
Brazil	152.40	23.81	24.00	22.50	23.50	32.00	30.00	30.50	31.00	n.a.	n.a.
Chile	61.43	85.19	35.11	32.30	30.38	35.58	78.75	95.33	79.56	58.04	58.40
Hong Kong	16.00	10.50	13.50	17.00	14.00	14.00	12.00	11.50	11.00	11.00	10.00
Indonesia	19.25	22.00	19.75	21.25	22.75	31.50	26.00	23.50	23.50	22.50	22.50
Korea	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.00	12.50	11.00	11.50	11.50	11.50	12.00	12.00	12.00	12 00	12.00
Mexico	31.81	46.12	56.44	50.69	50.93	50.60	49.34	48.31	47.54	47.17	n.a.
Philippines	18.00	18.00	18.00	24.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	11.83	9.33	8.98	10.10	10.10	10.33	10.33	9.88	9.40	9.08	9.03
Taiwan	15.25	10.75	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Thailand	17.00	16.00	16.00	17.00	17.00	17.00	17.00	16.50	16.50	16.50	16.50
Venezuela	15.50	17.00	16.00	15.50	16.00	15.00	15.00	16.00	16.00	15.00	15.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984						1985	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	15.50	11.75	12.63	13.38	13.20	12.88	12.63	12.37	12.25	12.00	13.00
Canada	16.18	12.74	12.89	13.91	13.39	13.33	12.90	12.62	12.42	12.08	12.95
France	17.33	15.91	14.06	13.77	13.77	13.77	12.84	12.58	12.14	12.40	12.16
Germany	10.50	8.20	8.30	8.00	7.90	7.70	7.60	7.30	7.20	7.20	7.20
Netherlands	11.03	7.80	8.51	8.49	8.42	8.21	7.77	7.61	7.51	7.33	8.00
Norway	13.36	14.13	13.25	12.75	12.75	12.75	12.75	12.75	12.75	12.75	12.75
Spain	14.76	17.10	19.84	21.47	21.78	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	12.94	13.37	12.21	12.73	12.78	13.18	13.19	13.21	12 33	12.34	12.67
Switzerland	6.60	4.87	4.94	5.10	5.16	5.12	5.14	5.18	5.20	5.16	5.25
United Kingdom	16.55	12.34	11.57	13.06	12.15	11.74	11.79	11.45	11.64	12.06	11.98
Australia	16 50	15.00	13.50	n.a.	n.a.	n a.	n.a.	n.a.	n.a.	n.a.	n.a.
Japan	7.70	7.55	7.09	7.09	7.06	6.98	6.99	6.51	6.21	6.46	6.98
Korea	26.90	16.00	14.20	14.00	14.50	14.60	14.60	14.90	15.00	14.70	14.70
Venezuela	17.00	18.00	18.00	18.00	18.50	18.00	19.00	18.00	18.00	18.00	18.00

Key to data in tables

I. International markets

Data on the *international banking market size* are based on resident and nonresident Eurocurrency (i.e., foreign currency) assets and liabilities and on nonresident domestic currency assets and liabilities of banks in nearly all European countries, the Bahamas, Bahrain, Canada, Cayman Islands, Hong Kong, Japan, Netherlands Antilles, Panama, Singapore, and the United States. All assets and liabilities of international banking facilities (IBFs) of banks in the United States are treated as Eurocurrencies.

An *international bond issue* may be either a Eurobond issue or a foreign bond issue. A *Eurobond issue* is one placed principally in countries other than that of the currency in which the bond is denominated, usually through an international syndicate. A *foreign bond issue* is one issued by a nonresident borrower on the market of a single country and denominated in that country's currency. Data on new international bond issue volume include all publicly announced issues of straight bonds, convertibles, bonds with warrants, floating rate notes, and certificates of deposit with an original maturity of three years or more (one year or more beginning in 1985), whether publicly or privately placed.

An *international bank credit* may be either a Eurocurrency credit or a foreign credit. A *Eurocurrency credit* is one denominated in a currency that is foreign to the country of the bank office extending the credit. *A foreign credit* is one extended to a nonresident borrower and denominated in the domestic currency of the country in which the bank office extending the credit is located. Data on new international bank credit volume include all publicly announced bank credits with an original maturity of one year or more (term loans, revolving lines of credit, and facilities to back up the issuance of other financial instruments such as commercial paper, short-term notes, certificates of deposit and banker's acceptances).

Data on international bond issues and bank credits through 1984 were compiled by Morgan Guaranty Trust Company. Beginning in January 1985 these data are based on figures published in the OECD's *Financial Statistics Monthly*.

II. Domestic markets

Day-to-day money rates

Argentina — 7-day interbank money regulated by the Central Bank.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — interbank call money.

Brazil — interbank overnight money.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call loan rate.

Singapore — interbank overnight money.

South Africa — discount houses basic call rate.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Treasury bill rates

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Brazil — 3-month Treasury bills.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — simple average of 91-day Treasury bills at tender until June 1984. Beginning July 1984 rates refer to the weighted average interest rate on 91- to 183-day Treasury bills sold to banks under negotiated basis.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit used for monetary correction until March 1982. New series as of April 1982, 6-month Treasury bills.

Sweden — new issues of 3-month Treasury bills until June 1982. New series as of July 1982, 6-month Treasury discount notes, market rate.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

Chile — 60-day Central Bank promissory notes (PDBC).

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Indonesia — 1-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Malaysia — 3-month interbank deposits.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — weighted average interest rate for 90-day promissory rates.

Portugal — average of 30- to 90-day interbank deposits.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

Taiwan — interbank call money.

Thailand — interbank call money.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank until August 1984. New series as of September 1984, 30-day acceptances maximum interest rate.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month certificates of deposit with prefixed yields until July 1982. New series as of August 1982, 6-month certificates of deposit reported as a spread above monetary correction which is set every month in relationship to inflation.

Canada — 3-month time deposits.

Chile — 30-day time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month time deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Malaysia — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month special term deposits.

Philippines — administrative ceiling on 90-day time deposits until June 1981; ceilings on time deposits with maturity of 730-days and below were lifted from July 1981 to September 1981; new series as of October 1981, weighted average interest rate on 60- to 90-day time deposits of sample commercial banks.

Portugal — 90- to 180-day time deposits until May 1984. New series as of June 1984, 180-day to one-year time deposits.

Singapore — 3-month certificates of deposit.

South Africa — negotiable certificates of deposit.

Key to data in tables — continued

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — 3-month certificates of deposit.

Switzerland — 3-month time deposits.

Taiwan — 3-month time deposits.

Thailand — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for domestic depositors only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 12% serial bonds maturing 2001 until April 1983. New series as of May 1983, 10% serial bonds maturing 2004.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond until December 1979. New series as of January 1980, average yield of national government bonds for maturities of 10-years or more.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — weighted average interest rate of outright sales on secondary transactions for Central Bank certificates of indebtedness.

Portugal — yield of 4% Centenary Loan of 1940.

South Africa — 25-year government bonds until August 1983; 20-year Republic of South Africa bonds until April 1984; new series as of May 1984, secondary market yield for the 13% due 2005 Republic of South Africa bond.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds until October 1983. New series as of November 1983, 5-year government bond yield index, market rate.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — prefixed rate applied to working capital loans until July 1982; monetary-corrected free rate applied to working capital loans from August 1982 to July 1983. New series as of August 1983, maximum legal rate reported as a spread above monetary correction which is set every month in relationship to inflation. Charges for fees and commissions are often added.

Canada — prime rate.

Chile — average prime rate of six major commercial banks.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month. A spread above base rate is often added.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Indonesia — prime rate for domestic affiliates of foreign companies.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Malaysia — Bank of Commerce Berhad base lending rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .25% per quarter on the total line of credit until January 1983. New series as of February 1983, special rate of first class, large borrowers.

Philippines — prescribed administrative ceiling for unsecured loans with maturities of 365 days and below, including charges until December 1982. New series as of January 1983, modal rate to prime borrowers.

Portugal — maximum rate for 90- to 180-day loans.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — overdraft rate for prime industrial borrowers, commission not included.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

Taiwan — maximum rate for 3- to 12-month secured loans. Rate is an indication only and may vary from actual bank lending rate which is subject to volatile interbank rates.

Thailand — prime rate.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for domestic prime borrowers only.

Domestic corporate bond yields

Australia — new issue yields for AA corporate bonds having a maturity of 5- to 7-years.

Canada — McLeod, Young, Weir Co. Ltd., weighted long-term bond yield index for AA corporates.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — Bundesbank average yield on industrial bonds.

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies. Mixture changed as of January 1982.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1981. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.